INLAND NATURAL GAS CO. LTD. / 1975 ANNUAL REPORT

File

Inland's Executive Committee on a field trip to pipeline construction project. Left to right: R. M. Hungerford, R. B. Stokes, R. E. Kadlec, R. L. Cliff.

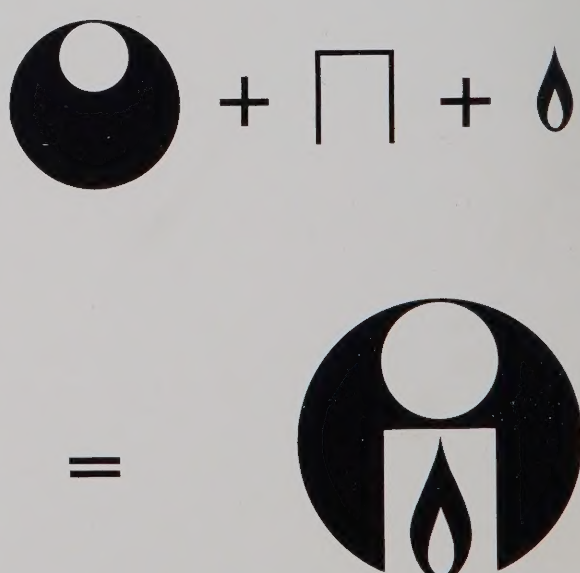
11:00 a.m. (Vancouver time) October 30, 1975,

COVER AND GRAPHIC DESIGN

The front and back cover pictures illustrate construction of Inland's East Kootenay Link inset in our new corporate symbol. Design components of the new logogram (right) are a circle within a circle, representing an end view of a section of pipeline, the block underneath the circle completes the "I" for Inland, and the flame is retained for traditional reasons.

The new symbol will be used throughout the Company on vehicles, hard hats, letterheads, business cards, envelopes, etc.

The stylized pipeline which flows through most of the report is representative of Inland's new inter-connection with the Alberta natural gas transmission system. The 103.4 mile pipeline has its easterly tie-in at Yahk, B.C., and connects with Inlands existing transmission systems near the City of Trail.



DIRECTORS

†*Ronald L. Cliff	Chairman of the Board, Inland Natural Gas Co. Ltd.
*Roderick M. Hungerford	President, Flex-Lox Industries Ltd.
†J. Norman Hyland	President, Granduc Mines Ltd.
*Robert E. Kadlec	President and Chief Operating Officer, Inland Natural Gas Co. Ltd.
Donald R. MacPhail	Vice-President and Secretary, Inland Natural Gas Co. Ltd.
Thomas G. Rust	Chairman and Chief Executive Officer, Weyerhaeuser Canada Ltd.
Horace B. Simpson	Vice-President, Okanagan Holdings Ltd.
*Richard B. Stokes	Executive Vice-President, Inland Natural Gas Co. Ltd.
†H. Richard Whittall	Partner, Richardson Securities of Canada

*Member of the Executive Committee.
†Member of the Audit Committee.

All Directors reside in British Columbia

OFFICERS

Ronald L. Cliff, C.A.	Chairman of the Board
Robert E. Kadlec, P.Eng.	President and Chief Operating Officer
Richard B. Stokes, C.A.	Executive Vice-President
Roderick M. Hungerford	Senior Vice-President
Donald R. MacPhail, L.L.B.	Vice-President and Secretary
Clifford I. Kleven, C.A.	Treasurer and Controller
Ardelle F. Clark	Assistant Secretary

HEAD OFFICE

1075 West Georgia Street, Vancouver, B.C. V6E 3G3

REGISTRAR

Canada Permanent Trust Company, Vancouver, B.C.

TRANSFER AGENT

Canada Permanent Trust Company,
Vancouver - Calgary - Toronto - Montreal - Halifax

AUDITORS

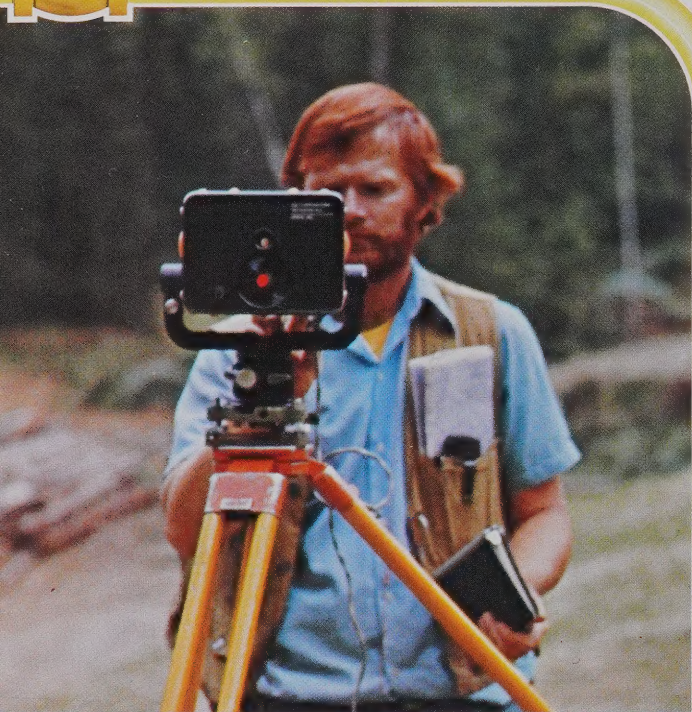
Thorne Riddell & Co.

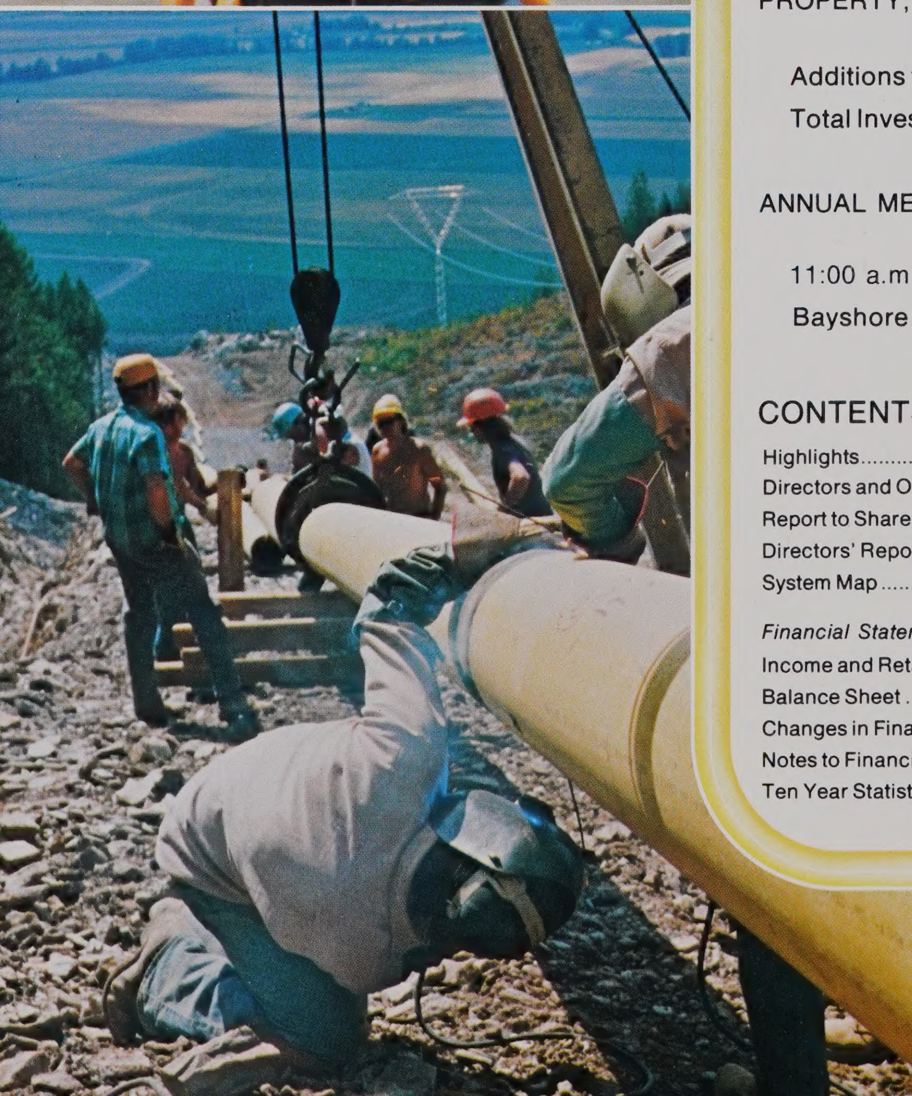
CONSOLIDATED COMPANIES

	ACT OF INCORPORATION
Inland Natural Gas Co. Ltd.	Province of British Columbia Companies Act
Wholly-owned Subsidiaries	
Peace River Transmission Company Limited	Special Act of the Parliament of Canada
Grande Prairie Transmission Co. Ltd.	Province of Alberta Companies Act
Inland Development Co. Ltd.	Province of British Columbia Companies Act
St. John Gas & Oil Co. Ltd. (N.P.L.)	Province of British Columbia Companies Act
Inland Transmission Co. Ltd.	Province of British Columbia Companies Act
Inland Development (1957) Co. Ltd.	Province of British Columbia Companies Act

Construction on Inland's 103.4 mile 12" pipeline includes the use of laser beam survey instrument.

Trail, B.C.





HIGHLIGHTS

EARNINGS AND DIVIDENDS	**1975**	1974
Net Income	**$ 4,094,233**	$ 3,889,528
Common Shares Outstanding	**2,822,122**	2,822,122
Earnings per Common Share	**$ 1.31**	$ 1.24
Dividends per Common Share	**$ .74**	$ .72
Dividends per Preference Share	**$ 1.00**	$ 1.00

REVENUES AND CUSTOMERS		
Total Revenue	**$34,532,965**	$29,193,229
Total Gas Sales Revenue	**$33,825,713**	$28,320,363
Total Gas Sales Volume (MMcf)	**35,495**	35,536
Number of Customers	**62,481**	58,068
Degree Days	**7,642**	7,368

PROPERTY, PLANT AND EQUIPMENT		
Additions for the Year	**$13,962,266**	$ 4,713,479
Total Investment	**$91,966,564**	$78,159,652

ANNUAL MEETING

11:00 a.m. (Vancouver time) October 30, 1975,
Bayshore Inn, Vancouver, B.C.

CONTENTS

TO OUR SHAREHOLDERS

There have been a number of major achievements by your Company over the past fiscal year. Most notable is the improvement in net earnings per common share which increased from $1.24 to $1.31. Effective with the May 15, 1975 dividend, your Board of Directors approved an increase in the quarterly dividend from 18¢ to 20¢ per common share.

Exploration and development of petroleum resources in the Province came virtually to a standstill over the past year as a result of adverse tax legislation and an inadequate field pricing system. In the late spring of this year, the British Columbia Energy Commission held a hearing for the purpose of determining the present exploration and production levels and future field prices for natural gas in the Province. This August the Commission released its preliminary report recommending higher prices for old and new gas and increased netbacks to the producers. It further stated that prospects for discovering natural gas in the Province are significantly superior to those in Alberta, therefore providing an even greater incentive to invest exploration dollars. The Provincial Government, on August 28, 1975, announced the acceptance of the Commission's recommendations and stated that the new price schedules would be implemented as rapidly as possible. The reaction by the producers has been positive and your Company is convinced that this change in price will encourage major exploration and development of natural gas this winter in British Columbia.

The British Columbia Energy Commission, in its preliminary report, further recommends that the price of natural gas delivered at the wholesale level to the Utilities in B.C. be increased. It is implicit in the report's recommendations that this increase flow through to the consumer. Your Company has just been notified that there will be a 15¢ per thousand cubic foot increase in the wholesale price of natural gas. The increase will be implemented November 1st, 1975. The resulting additional cost to consumers in your Company's service area will continue to place the price of natural gas at a substantially lower level than fuel oil, propane, or electricity for heating.

A long-term supply of natural gas is essential to the growth and development of the Company. During the past few years your Management, with the full support of your Board, has actively worked and directed its energies to achieving this goal. When completed this fall, the East Kootenay Link will connect Inland's facilities to the Alberta natural gas transmission system and will provide an alternate source of natural gas for security of service. The new pipeline will permit greater flexibility of operation and at the same time provide additional supplies of natural gas to the Company.

Your Company, in a recent submission to the National Energy Board, supported in principle the construction of a pipeline to the Mackenzie Delta. We believe that the National Energy Board will approve the construction of such a pipeline. Major quantities of gas could be made available to your Company from this area, either through an inter-tie with the Westcoast Transmission Company Limited system, or through the Alberta pipeline network, via the East Kootenay Link. Strengthened by these developments, together with the adoption of the new wellhead pricing policy in British Columbia, we are confident that Inland will have sufficient quantities of natural gas to meet its growing needs far into the future.

In June, 1975, a $12 million issue of First Mortgage Sinking Fund Bonds was sold. The Company has recently concluded arrangements with its bank to provide an increased line of credit up to $18 million under favourable terms. Your Company's major expansion program has increased the need to raise additional permanent capital. It is fundamental that Inland's earnings must be sufficient to attract the capital it requires. In this regard regulatory procedures, rules and practices must be reviewed with the British Columbia Energy Commission and, if necessary, modified and improved to achieve a result that will create a healthy investment climate. Your Company's Management will be directing a major portion of their energies to this important task in the coming year.

R. Laudwlitt

Chairman of the Board

President and Chief Operating Officer

Vancouver, B.C. October 3, 1975

Inland's marketing activities include appliance sales and advisory service to residential and commercial developments.

DIRECTORS' REPORT

REVENUE

Consolidated gross revenue for the current year was $34,532,965. Inland's gas sales revenue increased to $32,414,184 compared to $27,272,202 last year. Much of this gain can be attributed to a major increase in the retail price of natural gas on February 1st, 1974, which only affected five months of the previous fiscal year. This price increase was the result of a flow-through to consumers of an increase in the wholesale cost of natural gas from our supplier, Westcoast Transmission Company Limited. Total sales volume was approximately 35,500,000 Mcf, which was almost identical to the prior year's volume. Weather for the year was normal, but slightly colder than in the previous year. Residential and commercial sales were 12% higher as a result of adding 4,413 new customers during the year. This reflects the installation of natural gas in approximately 95% of new construction adjacent to mains. Large industrial volumes were 6% lower than the previous year due to poor market conditions in the lumber industry which adversely affected the operations of many of the Company's industrial customers, and also because of a four month shut-down of one of our largest industrial customers, Cominco Ltd., due to a labour strike.

Other operating revenue resulting from the sale, rental and financing of gas appliances and customer connection charges amounted to $410,552 compared to $576,166 in the previous year. Included in this account last year was a profit of $117,187 realized on the sale of land at Prince George.

EXPENSES

Purchase of Gas

The cost of gas purchased by Inland from its supplier, Westcoast Transmission Company Limited, was $18,663,501. This increase over last year's cost of $14,155,016 is primarily attributable to the increased wholesale price of natural gas referred to above. The load factor in the current year was somewhat lower than that of the previous year because of the Cominco Ltd. strike, referred to above, which reduced large

volume industrial sales during off-peak months. This reduction in load factor also contributed to a higher unit cost of gas purchased.

Operation, Maintenance, Selling and Administrative

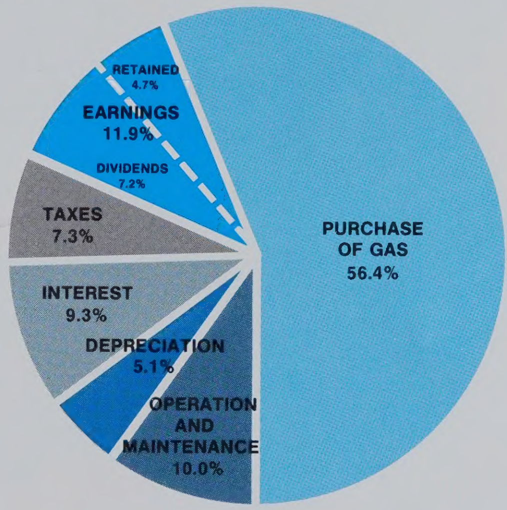
In fiscal 1975 operation and maintenance expenses amounted to $2,304,681 and selling and general and administrative expenditures were $1,157,066. The comparable figures for the previous year were $1,894,204 and $1,053,909 respectively. The major reason for the increases in these accounts is higher salaries, wages and related employee benefits, which were $3,830,824 compared to $3,142,081 last year. It is the Company's policy that normal plant additions are for the most part constructed by the Company's own work force and therefore a substantial portion of employee remuneration and related administrative costs are capitalized. The Company commenced service during the spring of the year to the communities of Fruitvale, Montrose and Salmo. These new distribution systems were installed entirely by Inland personnel.

The average number of employees on the payroll during the year was 240 compared to 224 a year ago.

Approximately 74% of Company personnel are union members and are covered by two separate collective agreements. A new Agreement with the Office & Technical Employees Union went into effect on April 1st, 1975. This Agreement is a two year agreement except for wages, which will be negotiated for the second year commencing April 1st, 1976. A two year Agreement with the International Brotherhood of Electrical Workers expired on September 12, 1975 and is presently under renegotiation. Since its inception, the Company has not experienced a work stoppage, and considers it has good relations with its employees.

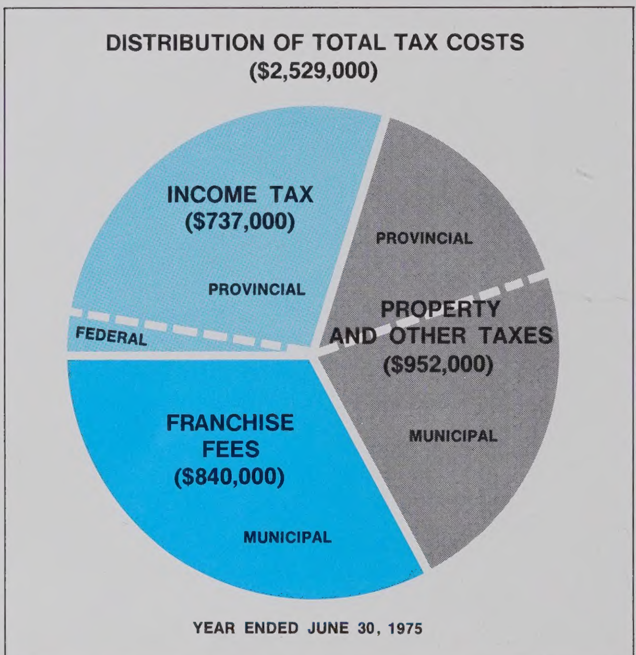
Over the past few years the Company has added significantly to its transmission and distribution systems. In particular, one major transmission line was completed in the 1972 fiscal year and another is currently under construction and will be completed in the fall of this year. Compressor stations have been installed at Savona, at Kingsvale, and will soon be installed on the new transmission line at Trail. A number of flow control stations have also been installed at various points on the

DISTRIBUTION OF GROSS REVENUE



YEAR ENDED JUNE 30, 1975

Keypunch billing operations.



Compressor control panel.

transmission system. These stations are remotely controlled from Inland's head office in Vancouver. On completion of the East Kootenay Link gas will at various times of the year be flowing both east and west, depending on the need, which requires careful forecasting of load requirements and day to day computerized control. In this regard, the Company has purchased and installed in its head office Gas Control Centre a P.D.P.-11/40 mini computer. We are also in the process of installing on a lease basis a Univac Model 90/30 computer which will allow on-line communications with our major centres in the interior of B.C. It will also allow the Company to perform in-house engineering calculations which the existing computer is unable to handle. The operation of the more sophisticated aforementioned facilities has dictated that the Company add more experienced operating staff in the form of additional engineers, electronic technicians and computer oriented personnel.

A non-recurring operating expense of $94,000 was incurred during the year resulting from the scrapping of the old computer, and the write-off of certain obsolete inventory items. The Company also increased its reserve for bad debts by $30,000 during the year.

Property, Franchise and Other Taxes

Over the years your Company has become a major revenue contributor to the communities it serves. The current year's contribution to communities by way of franchise fees and property taxes was $1,713,484 compared to $1,427,332 in fiscal 1974. The increase in the retail price of natural gas which went into effect on February 1st, 1974 was a major reason for the increase in franchise fees which are calculated at 3% of gross revenue from natural gas sales within municipal boundaries. Property taxes have also increased during the current year due to some increases in the assessed value of plant, the addition of plant during the year, and some major increases in mill rates. The Provincial Corporation Capital Tax came into effect on January 1st, 1973 and was originally calculated at 1/10 of 1% on a corporations paid-up capital (as defined in the Act) at the close of the fiscal year. The rate was increased effective January 1st, 1975 to 1/5 of 1% on a corporation's paid-up capital. This resulted in a cost for the

current year of $78,195 compared to $42,164 in the prior year.

Depreciation

The table below sets out depreciation rates for major plant classifications:

Transmission and distribution mains	2%
Meters, compressors, buildings, measuring and regulating equipment	3%
Other general equipment	5% to 15%

The composite rate of depreciation was 2.34%, unchanged from the previous year. Consolidated depreciation in the current year amounted to $1,745,311 compared to $1,635,367 last year.

Interest on Long-Term Debt

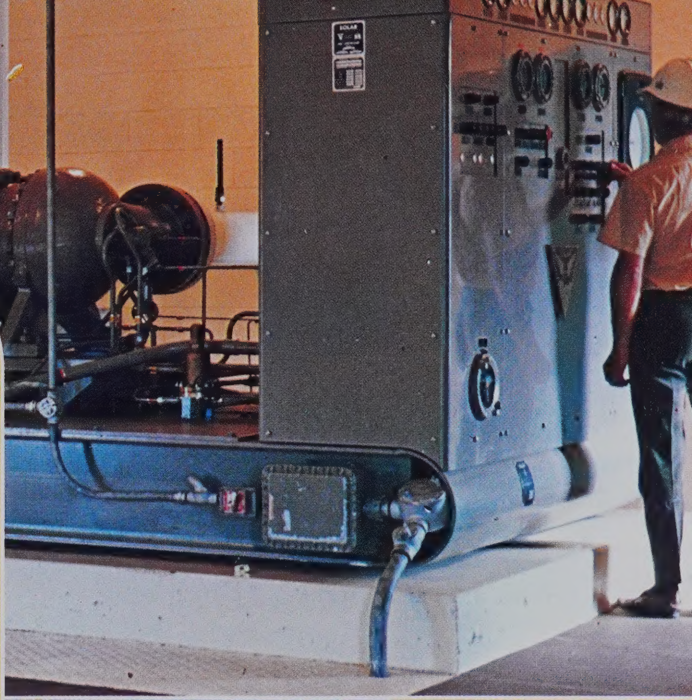
Interest on long-term debt amounted to $2,856,867, a slight decrease from a year ago. The reduction of interest on long-term debt for the year resulted from the retirement of long-term debt securities during the year in accordance with sinking fund requirements.

Other Interest

The cost of short-term borrowing by way of bank loans and the Company's own commercial paper rose to $840,548 from $139,305 in the prior year. The Company's composite short-term borrowing rate for the year was 9.59% which was slightly lower than the previous year's composite rate. However, the Company's short-term borrowings were materially higher during the year due to short-term financing of the East Kootenay Link.

Interest Charged to Construction

The Company follows the practice of capitalizing interest on funds used during the period of construction of major plant additions. Since the Company had relatively few such capital additions last year, interest charged to construction amounted to only $15,240. However, during the current year, the magnitude of the Company's capital program, primarily due to the construction of the East Kootenay Link, resulted in interest charged to construction of $529,712.



Top Left: Turn-on ceremony at recently serviced community.
Upper Right: Natural gas turbine compressor.
Lower Right: Portion of Inland's new computer system.

Income Taxes

Income taxes of $736,728 were substantially lower than the $1,471,736 recorded in the previous year, and have been provided as follows:

	($000's) 1975	1974
Net income before taxes (Inland)	$4,769	$5,312
Deduct:		
Interest charged to construction	530	15
Excess capital cost allowances and other timing differences	2,969	2,302
Non-taxable gain on sale of land	—	92
Other items (net)	(65)	26
Taxable income	$1,335	$2,877
Effective tax rate	53.12%	50.27%
Income taxes — Inland	$ 704	$1,446
— Subsidiaries	33	26
	$ 737	$1,472

The increase in tax rates resulted from the Federal 10% corporate surtax which was in effect to April 30, 1975 and the 1% increase in Provincial tax rate effective from January 1, 1975.

FINANCING

On June 26, 1975 your Company completed a $12 million issue of 11⅛% First Mortgage Sinking Fund Bonds Series "G", which netted the Company approximately $11,600,000. Approximately $1,700,000 of these funds are held by the Company's trustee in anticipation of additional property in accordance with certain provisions of the deed of trust and mortgage under which the Series "G" Bonds were issued. The Company expects to receive these funds in approximately October of 1975. All of the proceeds of this issue have, or will be utilized on construction of the East Kootenay Link. The Company has not finalized plans for further financings at the present time, but has established a line of credit with its corporate bankers, which along with internally generated funds, will provide the necessary cash requirements for the coming year.

CAPITAL EXPENDITURES

The year under review was the first of two years of major capital plant additions to the Company's system. The Company's $13.3 million capital program consisted of $4.2 million for normal capital additions and $9.1 million for the first stage (33 miles) of the East Kootenay Link pipeline. The $4.2 million normal capital addition program included the addition of the three new communities of Montrose, Fruitvale, and Salmo to the Company's system. These new communities were made accessible by completion, in November 1974, of the first stage of the East Kootenay Link.

FUTURE CAPITAL EXPENDITURES

Your Board of Directors has approved a capital budget for plant additions during the coming year amounting to approximately $15 million. This consists of $5 million for normal plant additions and $10 million for the second and final stage of the East Kootenay Link project. The normal plant additions consist mainly of routine plant additions, system improvements and additions and upgrading of the Vancouver Gas Dispatch Centre to optimize use of existing gas control equipment and our new computer facilities. The second and final stage of the East Kootenay Link project consists of approximately 70 miles of pipeline and a new 1100 H.P. compressor station at Trail, British Columbia which is required in conjunction with the new pipeline.

SHARE DISTRIBUTION

Approximately 94% of the shareholders of Preference and Common stock of the Company are resident in Canada. The distribution of each class of shares is set out below:

	Shareholders 1975	1974	Shares Held 1975	1974
Preference				
Canada ..	2,155	2,164	397,162	397,687
U.S.A......	15	13	1,878	1,203
Others....	6	8	960	1,110
	2,176	2,185	400,000	400,000
Common				
Canada ..	4,692	4,761	2,489,947	2,462,183
U.S.A......	293	284	88,545	104,167
Others....	89	86	243,630	255,772
	5,074	5,131	2,822,122	2,822,122

Below: Live gas flame is used by industry in a variety of ways, from cutting steel to welding television tubes.

WHOLLY-OWNED SUBSIDIARIES

Peace River Transmission Company Limited

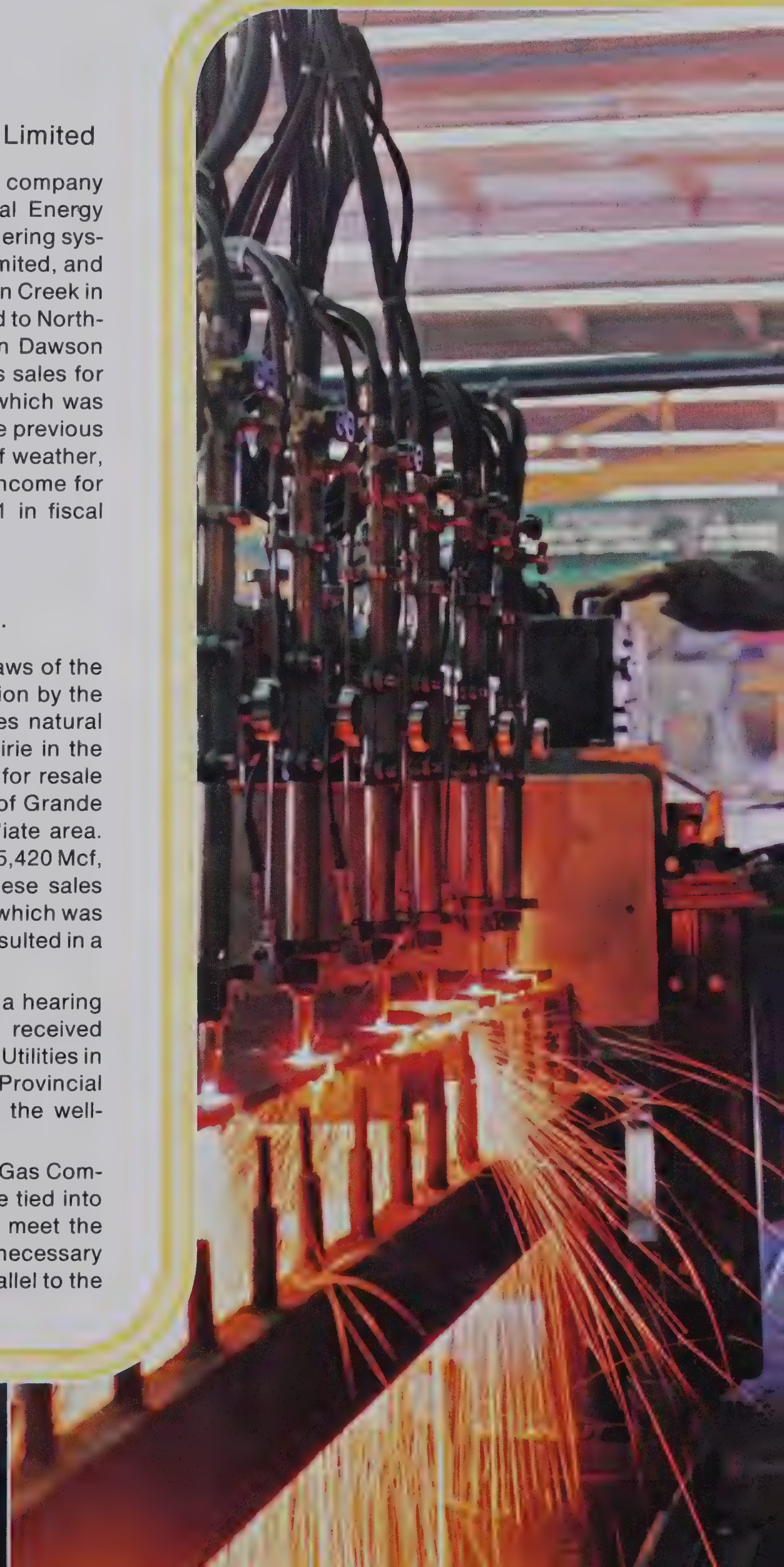
The Company is an Inter-Provincial pipeline company and is subject to regulation by the National Energy Board. It purchases natural gas from the gathering system of Westcoast Transmission Company Limited, and delivers it to the outskirts of the City of Dawson Creek in northeastern British Columbia, where it is sold to Northland Utilities (B.C.) Limited for distribution in Dawson Creek and the surrounding area. Natural gas sales for the year under review were 1,108,759 Mcf, which was slightly less than the 1,193,252 Mcf sold in the previous year. This decrease in sales was the result of weather, which was 12% warmer than last year. Net income for the year was $28,671 compared to $23,381 in fiscal 1974.

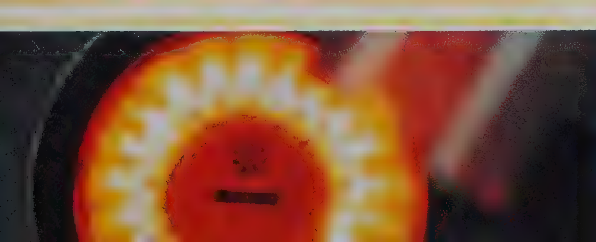
Grande Prairie Transmission Co. Ltd.

The Company was incorporated under the laws of the Province of Alberta and is subject to regulation by the Public Utilities Board of Alberta. It purchases natural gas from various fields north of Grande Prairie in the Peace River area of Alberta and transmits it for resale by Northwestern Utilities Limited to the City of Grande Prairie and other communities in the immediate area. Gas sales for the year under review were 1,965,420 Mcf, marginally higher than last year's sales. These sales were disappointing and were due to weather which was 12% warmer than in the previous year. This resulted in a small loss of $5,294 for the year.

In June of 1975 the Company, as a result of a hearing before the Public Utilities Board of Alberta, received permission to increase rates to Northwestern Utilities in order to recover equivalent increases in the Provincial support price for natural gas purchased at the wellhead.

During the year two new Hudson's Bay Oil & Gas Company Limited wells in the Sexsmith area were tied into the system. In order to deliver this gas and meet the peak day requirements of the system, it was necessary to install 3.5 miles of 6″ transmission line parallel to the existing main transmission line.





A. F. Kent, Project Engineer, on Inland's East Kootenay Link.

Bottom Right: Sales and Service office, Prince George.

St. John Gas & Oil Co. Ltd. (NPL)

This subsidiary holds minor interests in natural gas and oil leases in northeastern British Columbia and participates in the production of natural gas and oil from these leases. Net income for the year amounted to $3,465 compared to a loss of $3,705 in the prior year.

Inland Development Co. Ltd.

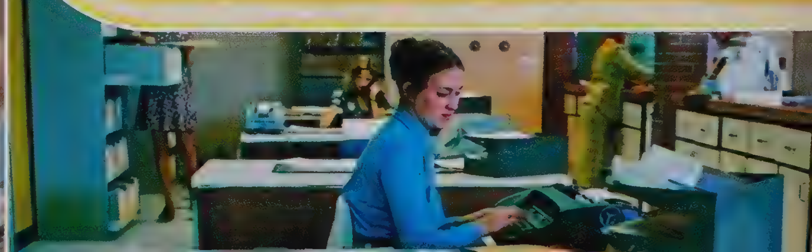
Inland Development Co. Ltd. owns an office building in Kelowna in which Inland Natural Gas Co. Ltd. is one of the tenants. Inland Development also owns approximately 60 acres of raw land immediately adjacent to the City of Kelowna. The Company has done preliminary work during the year which should enable it to proceed to develop the property as an industrial park. The Company also owns approximately 6 acres within the City of Kelowna, part of which will be used to build a combined service centre for Inland Natural Gas Co. Ltd. The balance of the property will be held for future development. There was very little activity during the year under review, and no property was developed or sold. The Company recorded a loss for the year of $10,661.

TO OUR EMPLOYEES

Your Company enjoys an excellent record of community involvement and corporate citizenship. This is due to the outstanding efforts of our employees, both on and off the job. The Board of Directors wish to acknowledge the role of Inland's employees in those areas and express appreciation for the dedication, imagination, and ability of both Management and staff whose valuable contributions have been a major factor in the financial results recorded in this report.

For the Board of Directors

Chairman of the Board
October 3, 1975



CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED JUNE 30

	1975	1974
REVENUE		
Sale of gas	**$33,825,713**	$28,320,363
Transportation allowance	**296,700**	296,700
Other operating revenue	**410,552**	576,166
	34,532,965	29,193,229
EXPENSES		
Purchase of gas	**19,488,555**	14,695,545
Operation and maintenance	**2,304,681**	1,894,204
Selling, general and administrative	**1,157,066**	1,053,909
Property, franchise and other taxes	**1,791,679**	1,469,496
Depreciation (Note 1)	**1,745,311**	1,635,367
Interest on long-term debt	**2,856,867**	2,899,189
Other interest	**840,548**	139,305
Amortization of long-term debt issue costs (Note 1)	**47,009**	60,190
Interest charged to construction	**(529,712)**	(15,240)
	29,702,004	23,831,965
Income before income taxes	**4,830,961**	5,361,264
Income taxes (Note 1)	**736,728**	1,471,736
NET INCOME	**$ 4,094,233**	$ 3,889,528
EARNINGS PER COMMON SHARE (Note 1)	**$ 1.31**	$ 1.24

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED JUNE 30

	1975	1974
BALANCE AT BEGINNING OF YEAR	**$11,135,915**	$ 9,690,972
Net income	**4,094,233**	3,889,528
	15,230,148	13,580,500
Dividends on preference shares—$1.00 per share	**400,000**	400,000
Dividends on common shares—$.74 per share in 1975; $.72 in 1974	**2,088,370**	2,031,928
Amortization of preference share issue costs (Note 1)	**12,657**	12,657
	2,501,027	2,444,585
BALANCE AT END OF YEAR	**$12,729,121**	$11,135,915

The accompanying notes are part of these financial statements.

CONSOLIDATED

AS AT

ASSETS

	1975	1974
CURRENT ASSETS		
Temporary cash investment	$ 1,716,413	$ —
Accounts receivable	3,033,404	3,500,761
Inventories of construction and operating materials and supplies, at cost	1,608,955	1,265,516
Prepaid expenses	117,438	128,976
	6,476,210	4,895,253
NON-CURRENT ASSETS		
Mortgages and other long-term receivables	98,651	115,479
Investment in marketable securities, at cost (quoted market 1975 - $65,000; 1974 - $93,000)	100,000	100,000
Real estate held for resale, at cost	237,269	203,251
	435,920	418,730
PROPERTY, PLANT AND EQUIPMENT, at cost (Note 1)		
Natural gas transmission lines and distribution systems	74,906,104	71,096,141
Plant, buildings and equipment	4,805,716	4,701,300
Land and land rights	2,000,496	1,475,432
Construction work in process	10,095,077	739,029
	91,807,393	78,011,902
Accumulated depreciation	13,110,412	11,520,769
	78,696,981	66,491,133
Interest in petroleum and natural gas properties	159,171	147,750
Accumulated depletion	62,458	62,143
	96,713	85,607
	78,793,694	66,576,740
OTHER ASSETS AND DEFERRED CHARGES (Note 1)		
Unamortized preference share issue costs	1,049,956	1,062,612
Unamortized long-term debt issue costs	1,090,260	854,892
	2,140,216	1,917,504
	$87,846,040	$73,808,227

The accompanying notes are part of these financial statements.

ALANCE SHEET

NE 30

LIABILITIES

	1975	1974
CURRENT LIABILITIES		
Bank loan and short-term notes	**$ 2,579,584**	$ 2,116,071
Accounts payable	**2,864,671**	2,425,849
Dividends payable	**100,000**	100,000
Income taxes	**6,905**	—
Property, franchise and other taxes accrued	**1,691,433**	1,343,403
Interest accrued on long-term debt	**492,845**	475,564
Current portion of long-term debt	**155,575**	177,444
	7,891,013	6,638,331
LONG-TERM DEBT (Note 2)	**50,920,566**	39,728,641

SHAREHOLDERS' EQUITY

	1975	1974
SHARE CAPITAL		
5% Cumulative preference shares, par value $20 per share, redeemable at not more than $21 per share		
Authorized: 500,000 shares		
Issued: 400,000 shares	**8,000,000**	8,000,000
Common shares, par value $1 per share (Note 3)		
Authorized: 5,000,000 shares		
Issued: 2,822,122 shares	**2,822,122**	2,822,122
PREMIUM ON COMMON SHARES	**5,483,218**	5,483,218
RETAINED EARNINGS (Notes 1 and 4)	**12,729,121**	11,135,915
	29,034,461	27,441,255
	$87,846,040	$73,808,227

Approved on behalf of the Board

R. Landlitt Director

Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED JUNE 30

	1975	1974
SOURCE OF WORKING CAPITAL		
Operations		
Net income	$ 4,094,233	$ 3,889,528
Non-cash charges (credits) to income		
Depreciation and amortization	1,792,320	1,695,557
Other	—	(109,976)
Total from operations	5,886,553	5,475,109
Long-term debt issued		
First mortgage bonds	12,000,000	—
Mortgage	347,500	—
Other — net	(17,190)	268,681
	18,216,863	5,743,790
APPLICATION OF WORKING CAPITAL		
Additions to property, plant and equipment	13,962,266	4,713,479
Dividends on preference and common shares	2,488,370	2,431,928
Reduction of long-term debt	1,043,357	903,749
Long-term debt issue costs	394,595	(1,871)
	17,888,588	8,047,285
INCREASE (DECREASE) IN WORKING CAPITAL	328,275	(2,303,495)
Working capital (deficit) at beginning of year	(1,743,078)	560,417
WORKING CAPITAL (DEFICIT) AT END OF YEAR	$(1,414,803)	$(1,743,078)

The accompanying notes are part of these financial statements.

AUDITORS' REPORT

To the Shareholders
Inland Natural Gas Co. Ltd.

We have examined the consolidated balance sheet of Inland Natural Gas Co. Ltd. and its subsidiaries as at June 30, 1975 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
August 29, 1975

Thorne Riddell & Co.
Chartered Accountants

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting Policies

The Company and its transmission subsidiaries are regulated utilities and their accounting records and practices conform to the requirements of their respective regulatory authority. Significant accounting policies are set out below:

a) Principles of Consolidation

The consolidated financial statements include the accounts of Inland Natural Gas Co. Ltd. and its subsidiaries Peace River Transmission Company Limited, Grande Prairie Transmission Co. Ltd., Inland Development Co. Ltd., St. John Gas & Oil Co. Ltd. (N.P.L.), Inland Transmission Co. Ltd., and Inland Development (1957) Co. Ltd., all of which are wholly-owned.

b) Property, Plant and Equipment

The cost of utility plant additions, major renewals and betterments, including direct costs, general and administrative costs allocable to construction and interest on funds used during construction, are capitalized. The cost of depreciable utility plant retired together with removal costs less salvage is charged to accumulated depreciation. Maintenance and repair costs of a routine nature are charged to expense as incurred.

c) Depreciation

Depreciation of plant in service is computed on a straight-line basis whereby rates for each class of plant, designed to amortize the cost of the assets over their estimated useful lives, are applied to the Company's investment in such plant at the beginning of the year. The application of these rates for the year ended June 30, 1975 results in a composite rate of 2.34%. Rates for major plant classifications are as follows:

Transmission and distribution mains	2%
Meters, compressors, buildings measuring and regulating equipment	3%
General equipment	5% to 15%

d) Other Assets and Deferred Charges

Long-term debt issue costs are amortized over the original lives of the related debt. Gains on purchase of debt securities for sinking funds are amortized over the remaining lives of the related debt as a reduction of debt charges.

Preference share issue costs are amortized to retained earnings at the prescribed annual rate of 1%.

e) Income Taxes

The companies claim capital cost allowances and certain other deductions for income tax purposes in excess of the related amounts recorded as expense in their accounts, thereby reducing income taxes which would otherwise have been charged against income by $1,574,000 for the 1975 fiscal year and $12,930,000 in total to June 30, 1975. In addition, as a result of the foregoing, tax losses carried-forward to future years in subsidiary companies amount to $197,532. The companies follow the taxes payable basis and make no provision for such reductions. This method is appropriate since only the taxes currently payable are claimed for regulatory purposes in setting consumer rates, as has been approved by the companies' regulatory authorities.

f) Pension Plans

The companies have pension plans for their employees which have been revised and amended from time to time. The plans require that actuarial studies be prepared every three years. The most recent actuarial valuations were prepared as at December 31, 1972 for the plan for salaried employees and as at April 1, 1973 for the plan for other employees. Based on these valuations, the estimated unfunded liability for past service benefits is $171,300 at June 30, 1975. This amount, together with interest, is being funded and charged to operations in annual amounts of $42,248 to 1978 and then $35,800 to 1980.

g) Earnings Per Common Share

Earnings per common share are calculated using the weighted monthly average number of shares outstanding during the respective fiscal years. Dividend requirements on preference shares of $400,000 each year are deducted from net income for purposes of these calculations.

There would be no material dilution of earnings per share if the outstanding common share purchase warrants had been exercised during the year.

2. Long-Term Debt

	Total Out-Standing	Current Liability	Long-Term 1975	Long-Term 1974
Inland Natural Gas Co. Ltd.				
First mortgage sinking fund bonds				
6¼% Series C, due May 1, 1983	$14,729,500	$ —	$14,729,500	$15,377,000
8% Series D, due December 31, 1989	4,760,000	93,000	4,667,000	4,760,000
8¼% Series E, due November 1, 1991	7,380,000	—	7,380,000	7,500,000
8⅜% Series F, due April 15, 1993	7,500,000	—	7,500,000	7,500,000
11⅛% Series G, due June 15, 1995	12,000,000	—	12,000,000	—
Convertible sinking fund debentures				
5½% Series A, due February 15, 1977	4,151,000	—	4,151,000	4,383,500
Inland Development Co. Ltd.				
9% Mortgage, repayable in monthly installments of $2,001 based on a 20 year term to 1991	208,141	5,850	202,291	208,141
9% Mortgage, repayable in annual installments of: 1976 to 1979 — $88,000; 1980 — $96,017	347,500	56,725	290,775	—
	$51,076,141	$155,575	$50,920,566	$39,728,641

The first mortgage bonds are secured by a Trust Deed which constitutes in favour of the Trustee a first, fixed and specific mortgage and charge of and upon certain property of the Company and a first floating charge on the undertaking and all other property and assets, present and future of the Company, in the manner and to the extent set forth in the Trust Deed.

The Series A debentures are (inter alia) unsecured obligations of the Company but are subject to restrictions of the Trust Indenture dated February 15, 1957. The convertible feature of the debentures expired November 15, 1967.

The trust agreements relating to the bonds and debentures require the Company to establish sinking funds to retire various amounts of each issue prior to maturity. The annual requirements to date have been fulfilled by retirement of the stipulated amount of such securities. Sinking fund requirements and debt maturities over the next five years, after giving effect to purchases and retirements at June 30, 1975, are: 1976 — $93,000; 1977 — $5,330,500; 1978 — $1,282,000; 1979 — $1,380,000; 1980 — $1,482,000.

3. Share Capital

The Series D bonds were issued with share purchase warrants which entitled holders to purchase common shares of the Company on or before June 15, 1979 at $17.50 per share, such price being subject to adjustment in certain events. On June 21, 1971 following the issue of common shares pursuant to the rights offering, the warrant exercise price was adjusted to $16.83 per share. 75,000 unissued shares have been reserved to meet this commitment.

4. Retained Earnings

The Trust Deed relating to the First Mortgage Sinking Fund Bonds contains certain restrictions upon the payment of dividends. At June 30, 1975 approximately $10,036,000 of retained earnings was free of such restrictions.

5. Remuneration of Directors and Senior Officers

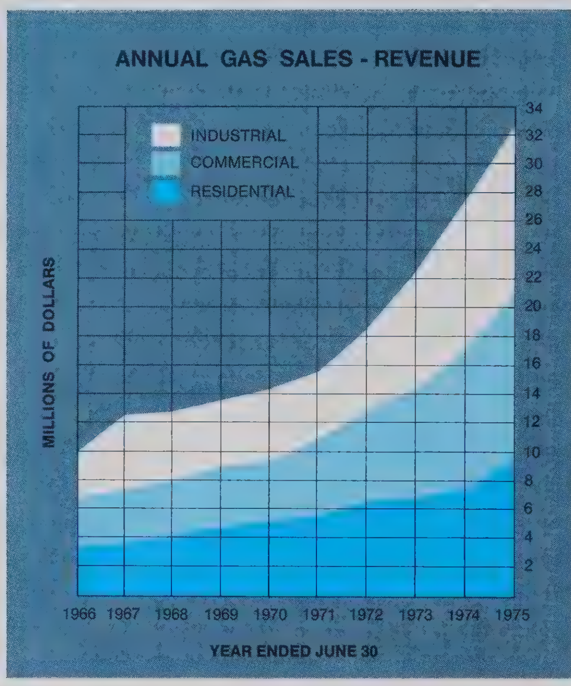
The aggregate direct remuneration paid by the Company to directors and senior officers for the year ended June 30, 1975 was $215,259 (1974—$207,543.)

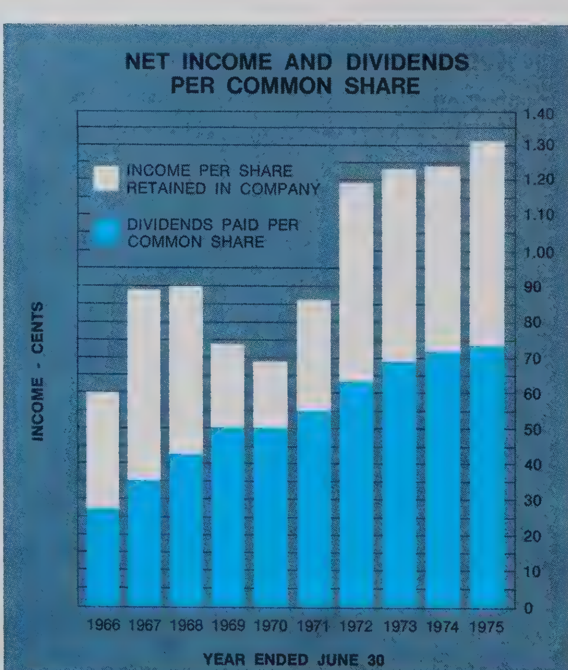
6. Capital Expenditures

Routine plant additions for 1976 are estimated at $5,000,000. In addition, completion of the East Kootenay Link pipeline is estimated to cost $10,000,000. Cash requirements for the coming fiscal year including expenditures on the pipeline, will be provided by established corporate lines of credit together with cash from operations pending future financing.

7. Reclassifications

For comparative purposes, certain 1974 accounts have been reclassified to conform with 1975 classifications.



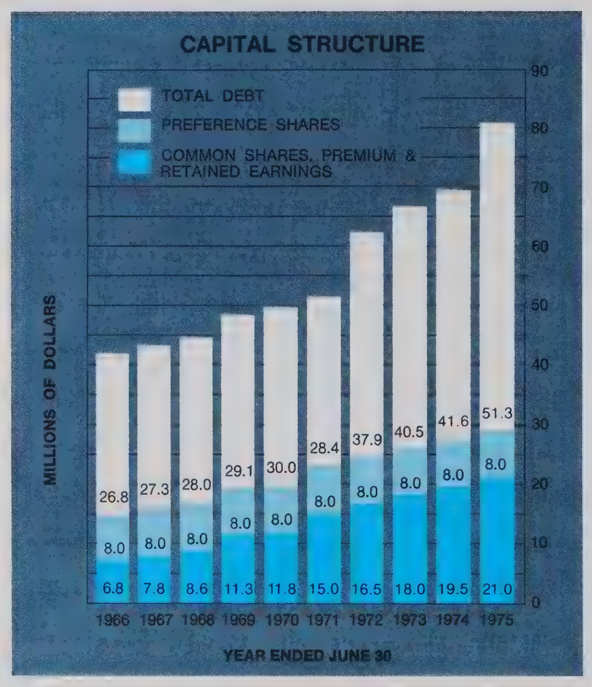


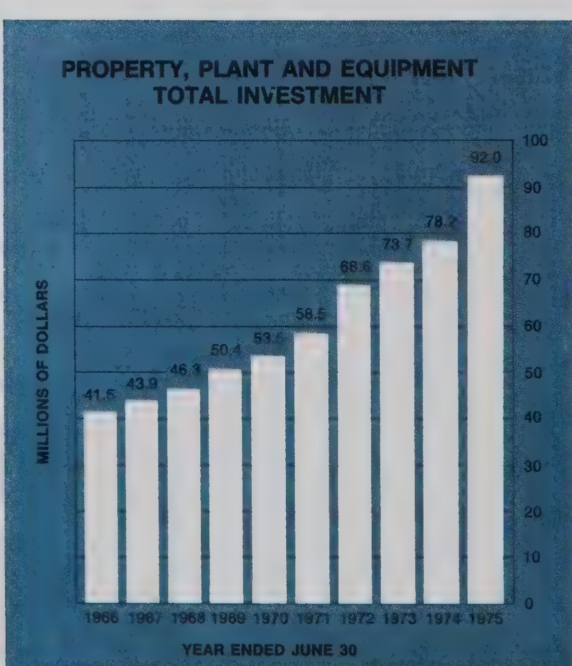
COMPARATIVE STATEMENT O

	1975
REVENUE	
Sale of gas	$32,414,184
Transportation allowance	296,700
Other income	328,971
	33,039,855
EXPENSES	
Purchase of gas	18,663,501
Operation and maintenance	3,197,242
Property and other taxes	920,547
Franchise fees	839,649
Depreciation	1,661,278
Interest on borrowed money	3,678,765
Amortization of long-term debt issue costs	47,009
Interest charged to construction (credit)	(529,712)
	28,478,279
INCOME BEFORE INCOME TAXES	4,561,576
INCOME TAXES	703,700
NET INCOME	3,857,876
INCOME FROM SUBSIDIARY COMPANIES (net)	236,357
NET CONSOLIDATED INCOME	$ 4,094,233
DIVIDENDS	
Preference shares	$ 400,000
Common shares	2,088,370
Total dividends	$ 2,488,370
NUMBER OF COMMON SHARES (average)	2,822,122
EARNINGS PER COMMON SHARE	
(after provision for preference dividends)	$ 1.31
DIVIDENDS PER COMMON SHARE	$ .74

CONSOLIDATED INCOME AND DIVIDENDS

1974	1973	1972	1971	1970	1969	1968	1967	1966
27,272,202	22,664,204	18,269,877	15,544,855	14,146,424	13,960,737	12,545,300	12,234,227	9,799,765
296,700	288,880	260,023	234,030	229,032	199,400	151,800	151,800	174,053
488,703	352,712	331,191	242,211	219,627	259,489	275,416	278,255	227,722
28,057,605	23,305,796	18,861,091	16,021,096	14,595,083	14,419,626	12,972,516	12,664,282	10,201,540
14,155,016	10,403,343	8,117,278	6,949,267	6,650,914	6,702,964	5,971,774	5,694,852	4,280,876
2,723,477	2,382,680	2,015,214	1,713,627	1,655,258	1,764,769	1,486,372	1,618,442	1,392,008
791,251	650,950	541,075	475,903	430,785	386,764	346,214	316,294	298,680
649,628	455,525	381,973	333,279	258,094	257,692	211,725	199,773	192,324
1,554,102	1,447,087	1,192,131	1,154,571	1,037,895	965,584	916,347	868,390	803,515
3,019,393	2,662,467	2,331,595	1,956,895	1,948,695	1,791,638	1,708,993	1,680,905	1,637,693
60,190	63,323	67,179	67,157	74,994	97,625	97,215	97,215	97,215
(15,240)	(38,663)	(264,894)	(24,228)	(18,806)	(25,023)	(8,340)	(14,188)	(21,342)
22,937,817	18,026,712	14,381,551	12,626,471	12,037,829	11,942,013	10,730,300	10,461,683	8,680,969
5,119,788	5,279,084	4,479,540	3,394,625	2,557,254	2,477,613	2,242,216	2,202,599	1,520,571
1,446,269	1,495,561	994,769	956,362	594,511	490,580	—	—	—
3,673,519	3,783,523	3,484,771	2,438,263	1,962,743	1,987,033	2,242,216	2,202,599	1,520,571
216,009	99,708	281,130	207,694	179,306	215,613	275,547	286,423	285,628
3,889,528	3,883,231	3,765,901	2,645,957	2,142,049	2,202,646	2,517,763	2,489,022	1,806,199
400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000
2,031,928	1,947,264	1,777,937	1,414,514	1,285,921	1,228,367	995,191	819,569	643,948
2,431,928	2,347,264	2,177,937	1,814,514	1,685,921	1,628,367	1,395,191	1,219,569	1,043,948
2,822,122	2,822,122	2,822,122	2,578,100	2,571,843	2,437,550	2,341,625	2,341,625	2,341,625
1.24	1.23	1.19	.87	.68	.74	.90	.89	.60
.72	.69	.63	.55	.50	.50	.42½	.35	.27½



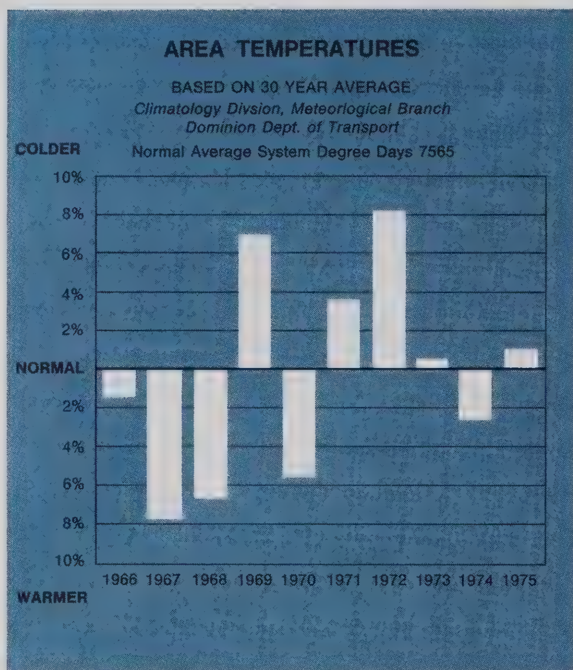


CONSOLIDATED BALANC

	1975
MILES OF COMPANY OWNED LINES	
Transmission	816
Distribution	1,141
Services	871
Transmission-subsidiaries	122
UTILITY PLANT ($000)	
Transmission	$34,839
Distribution	39,322
Stand-by	882
General	2,671
Construction work in process	10,095
Total utility plant	87,809
SUBSIDIARIES' PLANT	4,157
	91,966
ACCUMULATED DEPRECIATION	
Inland Natural Gas Co. Ltd.	12,106
Subsidiary companies (including depletion)	1,066
	13,172
NET CONSOLIDATED PLANT	$78,794
CAPITALIZATION ($000)	
First mortgage bonds	$46,277
Debentures	4,151
Short-term notes and bank loan (net)	863
Total debt	51,291
Preference shares	8,000
Common shares	2,822
Premium on common shares	5,483
Retained earnings	12,729
	$80,325
PERCENT OF TOTAL CAPITALIZATION	
First mortgage bonds	57.6
Debentures	5.2
Short-term notes and bank loan (net)	1.1
Total percent of debt	63.9
Preference shares	10.0
Common shares	3.5
Premium on common shares	6.8
Retained earnings	15.8
	100.0
RATIOS	
First mortgage bond interest — times earned	3.30
Total debt interest — times earned	2.32
Preference dividends — times earned	10.24

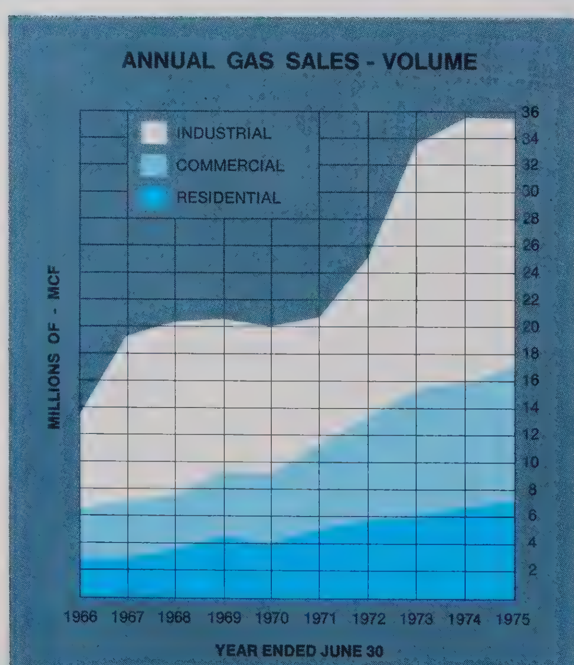
SHEET INFORMATION

1974	1973	1972	1971	1970	1969	1968	1967	1966
781	777	769	624	603	559	481	471	440
1,082	1,000	898	831	778	691	626	576	541
814	740	671	614	569	526	491	458	424
116	116	115	115	115	115	115	109	109
34,047	33,190	31,680	22,552	22,330	21,046	19,062	18,406	18,115
36,374	33,000	29,558	26,820	25,420	23,005	21,510	19,940	18,494
882	883	913	364	364	362	361	357	347
2,601	2,537	2,528	2,597	2,605	2,522	2,197	2,177	2,047
739	618	591	3,499	134	896	615	508	68
74,643	70,228	65,270	55,832	50,853	47,831	43,745	41,388	39,071
3,517	3,470	3,343	2,708	2,688	2,570	2,512	2,496	2,466
78,160	73,698	68,613	58,540	53,541	50,401	46,257	43,884	41,537
10,594	9,267	8,225	7,277	6,615	5,726	4,862	4,017	3,218
989	912	844	788	733	680	632	581	532
11,583	10,179	9,069	8,065	7,348	6,406	5,494	4,598	3,750
66,577	63,519	59,544	50,475	46,193	43,995	40,763	39,286	37,787
35,137	35,810	28,960	21,943	22,567	23,478	18,894	19,285	19,653
4,384	4,623	4,879	5,110	5,360	5,600	5,840	6,080	6,320
2,116	76	4,071	1,300	2,031	—	3,258	2,000	800
41,637	40,509	37,910	28,353	29,958	29,078	27,992	27,365	26,773
8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
2,822	2,822	2,822	2,822	2,572	2,572	2,342	2,342	2,342
5,483	5,483	5,483	5,483	3,231	3,231	1,159	1,159	1,159
11,136	9,691	8,168	6,758	6,013	5,557	5,059	4,292	3,262
69,078	66,505	62,383	51,416	49,774	48,438	44,552	43,158	41,536
50.8	53.8	46.4	42.7	45.3	48.5	42.4	44.7	47.3
6.3	7.0	7.8	9.9	10.8	11.5	13.1	14.1	15.2
3.2	.1	6.5	2.5	4.1	—	7.3	4.6	1.9
60.3	60.9	60.7	55.1	60.2	60.0	62.8	63.4	64.4
11.6	12.0	12.8	15.5	16.1	16.5	18.0	18.5	19.3
4.1	4.2	4.5	5.5	5.1	5.3	5.2	5.4	5.6
7.9	8.3	8.8	10.7	6.5	6.7	2.6	2.7	2.8
16.1	14.6	13.2	13.2	12.1	11.5	11.4	10.0	7.9
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
3.22	3.80	3.89	3.81	3.09	3.87	3.62	3.50	2.91
2.78	3.04	3.09	2.91	2.48	2.60	2.54	2.55	2.18
9.72	9.71	9.41	6.62	5.36	5.51	6.29	6.22	4.52



COMPARATIVE STATEMENT OF SALES

	1975
REVENUE ($000)	
Residential	$ 9,531
Commercial	7,567
Small industrial	3,787
Large industrial	11,529
Total natural gas revenue	$32,414
SALES VOLUME (MMcf)	
Residential	7,173
Commercial	5,959
Small industrial	3,847
Large industrial	18,516
Total natural gas sales volume	35,495
CUSTOMERS AT YEAR END	
Residential	54,910
Commercial	7,481
Small industrial	90
Customers at year end	62,481
CUSTOMER STATISTICS	
Average use per customer (Mcf)	
Residential	135
Commercial	826
Average rate per Mcf	
Residential	$1.33
Commercial	1.27
COST OF NATURAL GAS PURCHASED ($000)	$18,664
VOLUME OF NATURAL GAS PURCHASED (MMcf)	35,111
MAXIMUM DAY SENDOUT (Mcf)	
Including interruptible	148,233
DEGREE DAYS	7,642
PAYROLL STATISTICS	
Wages and benefits ($000)	$ 3,831
Number of employees (average)	240



***excluding subsidiary companies**

PURCHASES AND OTHER STATISTICS*

1974	1973	1972	1971	1970	1969	1968	1967	1966
7,633	6,406	6,224	5,477	4,738	4,645	4,022	3,907	3,870
5,759	4,593	4,375	4,226	3,566	3,316	2,748	2,391	2,421
3,509	3,158	2,426	1,452	1,272	1,419	1,142	1,238	837
10,371	8,507	5,245	4,390	4,570	4,581	4,633	4,698	2,672
27,272	22,664	18,270	15,545	14,146	13,961	12,545	12,234	9,800
6,527	6,020	5,604	4,794	4,083	4,200	3,462	3,079	2,861
5,207	4,753	4,510	4,366	3,630	3,389	2,702	2,295	2,171
4,081	4,188	3,415	2,124	1,892	2,050	1,688	1,842	1,211
19,721	18,700	11,311	9,635	10,394	10,856	12,218	12,543	7,103
35,536	33,661	24,840	20,919	19,999	20,495	20,070	19,759	13,346
51,207	45,870	41,094	36,972	34,174	31,275	29,495	27,352	24,906
6,955	6,362	5,800	5,360	5,121	4,635	4,318	4,013	3,687
86	90	98	62	51	69	78	79	73
58,068	52,322	46,992	42,394	39,346	35,979	33,891	31,444	28,666
135	138	144	135	125	138	122	118	122
782	782	808	833	744	756	649	596	617
1.17	1.06	1.11	1.14	1.16	1.11	1.16	1.27	1.35
1.11	0.97	0.97	0.97	0.98	0.98	1.02	1.04	1.12
14,155	10,403	8,117	6,949	6,651	6,703	5,972	5,695	4,281
35,169	33,120	24,430	20,858	20,040	20,507	19,823	19,387	13,103
136,485	127,926	105,869	92,848	90,839	97,944	84,624	80,447	58,353
7,368	7,605	8,183	7,848	7,144	8,085	7,067	6,977	7,460
3,142	2,625	2,328	1,889	1,809	1,745	1,481	1,447	1,312
224	213	205	188	195	210	200	200	200

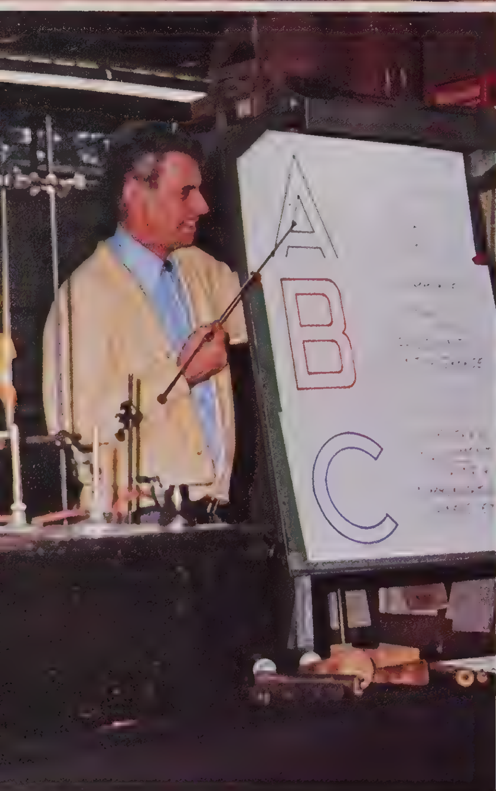
Pictures below illustrate part of Inland's community involvement program.

Below Left: Company-sponsored Christmas television special.

Below Right: School children participate in Inland-sponsored ice carving contest.

Bottom Left: Safety and training supervisor conducts classes for fire department.

Bottom Right: District Manager discusses municipal convention plans with Penticton Mayor and Alderman.



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Fold Out For System Map

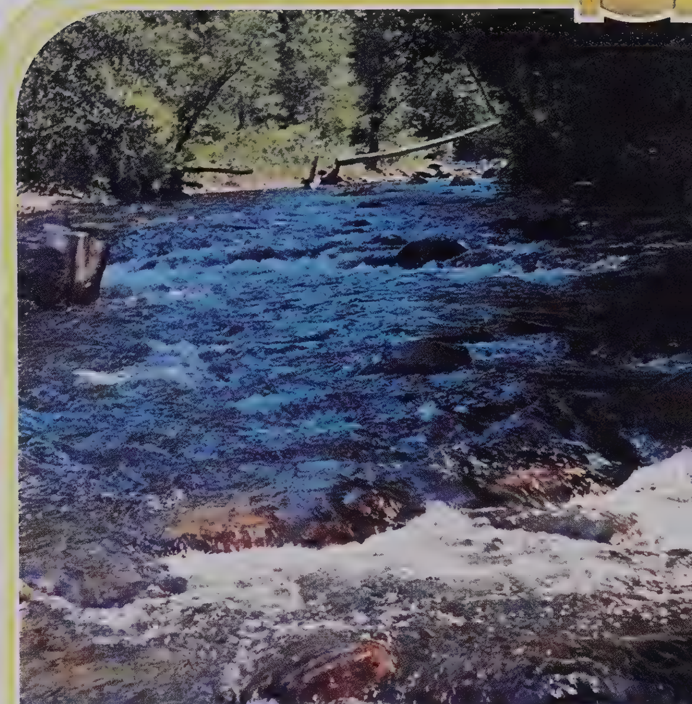
COMMUNITIES SERVED

YEAR SERVICE COMMENCED	
1957	Quesnel
	Williams Lake
	100 Mile House
	Merritt
	Kamloops
	Armstrong
	Enderby
	Salmon Arm and Canoe
	Vernon
	Kelowna
	Summerland
	Penticton
	Oliver
	Osoyoos
	Grand Forks
	Rossland
	Trail and Tadanac
	Warfield
	Castlegar
	Nelson
1958	Chetwynd
	*Prince George
1960	Shelley
1961	Oyama
1962	Lac La Hache
1964	Savona
	Winfield
	Okanagan Falls
1965	W. A. C. Bennett Damsite and Hudson Hope
	Robson
1967	Mackenzie
1968	Princeton
	Falkland
	Coldstream
	Peachland
	Westbank
	Naramata
	Midway
	Lakeview Heights
1969	Clinton
	Lumby
1971	Logan Lake
	Cache Creek
	Ashcroft
1972	*South Fort George
	Keremeos
1974	Hedley
1975	Salmo
	Fruitvale
	Montrose

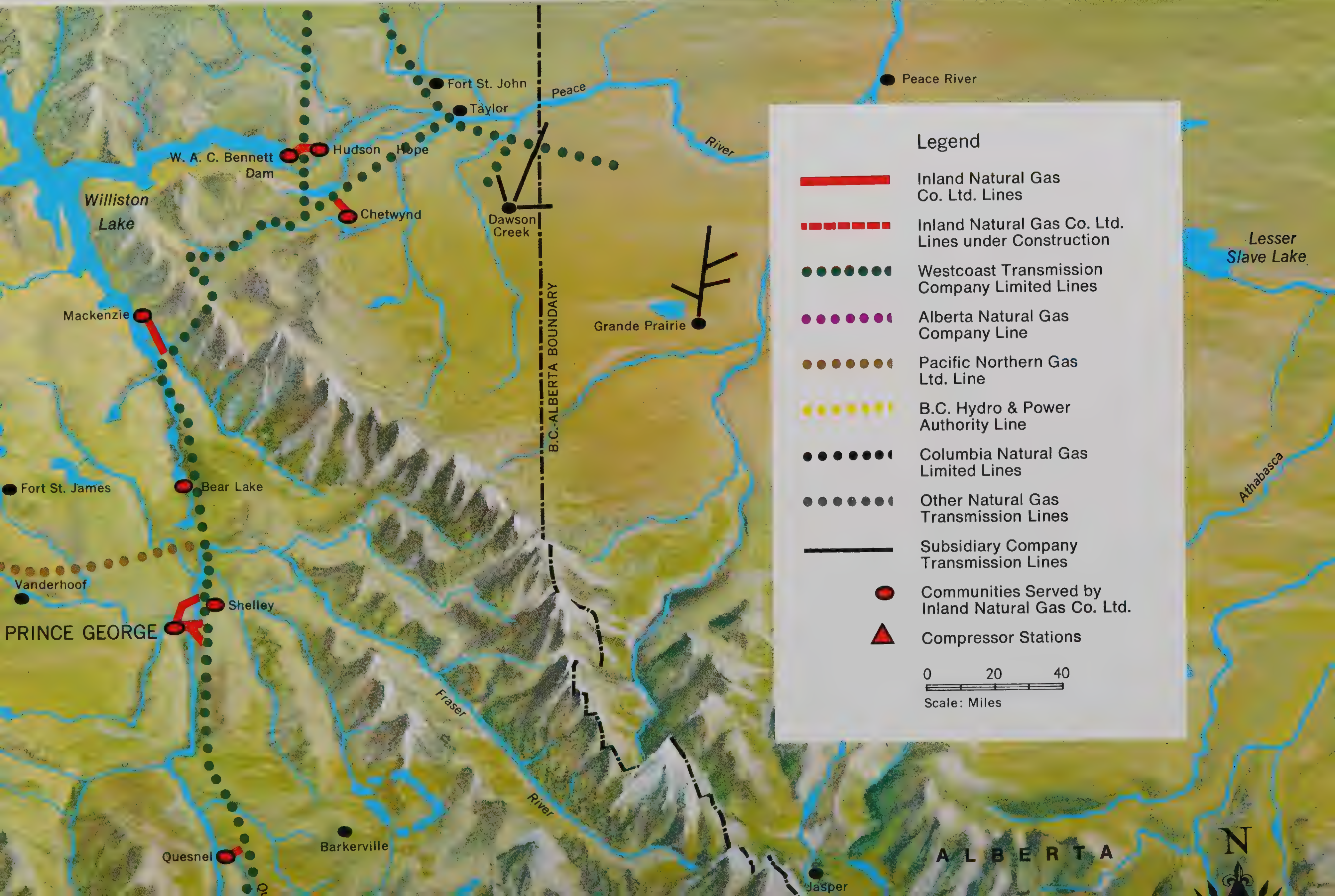
*These communities amalgamated in 1975.

Environmental concern is of major importance in the construction of your Company's new transmission line. Final stage is restoration and seeding of right-of-way.

Yahk, B.C.



INLAND NATURAL GAS CO. LTD. DISTRIBUTION AREA



Mines
BRITISH
COLUMBIA
Williams Lake
Lac La Hache
100 Mile House
Fraser
River
Clinton
Cache Creek
Savona
Ashcroft
Highland
Valley
Logan
Lake
KAMLOOPS
Salmon Arm
Enderby
Armstrong
Falkland
VERNON
Coldstream
Lumby
Shuswap
Lake
Okanagan
Lake
Oyama
Winfield
KELOWNA
Westbank
Peachland
Summerland
Naramata
PENTICTON
Merritt
Princeton
Hedley
Okanagan
Falls
Keremeos
Oliver
Osoyoos
Midway
Grand
Forks
Rossland
TRAIL
Fruitvale
Montrose
Salmo
Creston
Castlegar
Robson
NELSON
Arrow
Lake
Kootenay
Lake
Revelstoke
Columbia
River
Columbia
Icefields
Lake Louise
Banff
Skookumchuck
Kimberley
Cranbrook
Fernie
Crowsnest
Vancouver
Nanaimo
Victoria
Bellingham
CANADA-U.S.A. BORDER
WASHINGTON
IDAHO
MONTANA
Columbia
River

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INLAND
NATURAL GAS CO. LTD.

INTERIM REPORT

DECEMBER 31, 1975

INLAND NATURAL GAS CO. LTD. / 23RD. ANNUAL REPORT

INLAND NATURAL GAS CO

CONSOLIDATED STATEMENT OF INCOME

	Six Months Ended Dec. 31, 1975	Six Months Ended Dec. 31, 1974
Revenue		
Sale of gas	$ 14,045,821	$ 14,071,779
Transportation allowance	148,350	148,350
Subsidiary companies (net before income tax)	175,278	175,667
Other income	182,140	178,376
	14,551,589	14,574,172
Expenses		
Purchase of gas	7,788,220	8,396,748
Operating expenses	2,552,306	2,155,389
Depreciation and depletion, including subsidiaries	933,548	867,513
Interest and amortization on funded debt	2,101,244	1,458,216
Other interest	311,505	325,717
Interest charged to construction (credit)	(562,850)	(145,249)
	13,123,973	13,058,334
Income before income taxes	1,427,616	1,515,838
Provision for income taxes	16,732	20,110
Net income	1,410,884	1,495,728
Dividends declared on preference shares	200,000	200,000
	$ 1,210,884	$ 1,295,728
Common shares outstanding on December 31st	2,822,122	2,822,122
Earnings per common share (after provision for dividends on preference shares)	$ 0.43	$ 0.46
Sale of natural gas — Mcf	14,128,442	15,571,610

CONS

Source of Working
Net income for
Add - Non-cash
Depreciatio
Amortizatio
issue cost
Total from
Long-term debt
Gain on purchas
for sinking fu

Application of Wo
Additions to pro
and equipmen
Increase in non-

Reduction of lon
Dividends on pr
common share
Long-term debt

Decrease in worki
Working capital d
Working capital d

Approved on be

The above statements have been prepared from the books of accou

'D. *and wholly-owned subsidiary companies*

ATED STATEMENT OF CHANGES
N FINANCIAL POSITION

	Six Months Ended Dec. 31, 1975	Dec. 31, 1974
l		
months	$ **1,410,884**	$ 1,495,728
s to income lepletion	**933,548**	867,513
ng-term debt	**33,557**	28,127
ons	**2,377,989**	2,391,368
Mortgage	**—**	347,500
ng-term debt	**—**	1,390
	2,377,989	2,740,258
Capital		
plant	**10,698,818**	9,851,000
assets	**26,263**	10,638
debt	**239,230**	217,361
e and	**1,328,849**	1,215,964
sts	**12,184**	186
	12,305,344	11,295,149
tal	**9,927,355**	8,554,891
June 30	**1,414,803**	1,743,078
Dec. 31	$ **11,342,158**	$ 10,297,969

the Board

Director

Director

are unaudited.

TO OUR SHAREHOLDERS

Common Share Dividend

The Board of Directors by resolution dated January 27th, 1976 declared Quarterly Dividend No. 49 in the amount of 20¢ per common share payable on February 15, 1976 to shareholders of record at the close of business on February 6, 1976.

Earnings

A comparative consolidated statement of income for the six months ended December 31, 1975 and December 31, 1974, together with a comparative consolidated statement of changes in financial position are set out herewith. Earnings per common share after providing for dividends on preference shares amounted to 43¢ for the six months under review compared to 46¢ in the corresponding period last year.

Revenue

The addition of approximately 4,800 residential and commercial customers during the 12 months ended December 31, 1975, brings the total of such customers served to just over 66,000. Revenue from residential and commercial customers was $5,850,000 for the current six months compared to $5,180,000 a year ago. Weather during the period was slightly warmer than normal, but was 9% colder than the same period last year, which was one of the warmest ever recorded. In spite of the customer additions and the colder weather this year, total revenue from gas sales was slightly lower than in the previous year due to drastically reduced industrial sales. This reduction was due to prolonged strikes in the pulp and paper industry during the first quarter of the fiscal year, coupled with poor market conditions and some labour unrest in the lumber industry. Industrial sales volumes for the period under review amounted to 8,276,343 Mcf compared to 10,390,405 Mcf in the first six months of last year, a decrease of 20%. Resumption of

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operations in the pulp and paper industry in October resulted in industrial sales for the quarter ending December 31, 1975 being slightly higher than the same quarter a year ago.

Expenses

The cost of natural gas purchased during the current six months was 7% lower than last year due to decreased sales volume.

Operating expenses were $2,552,306 compared to $2,155,389 in the previous year. This increase is mainly attributable to the overall inflationary costs of doing business.

Interest

Interest and amortization of funded debt increased by 44% as a result of the issue of $12 million, 11 1/8% First Mortgage Sinking Fund Bonds, Series "G" on June 26, 1975. These funds were used to repay short-term indebtedness incurred during the construction of the East Kootenay Link,

East Kootenay Link

The East Kootenay Link has now been completed except for some cleanup work to be carried out in the spring. The new line went into service in late November and since that date has been utilized by the Company for peak shaving purposes. Indications are that this line is going to be of tremendous long-term benefit to your Company.

Rate Increase

In the Company's last annual report to shareholders you were notified of a 15¢ per thousand cubic foot increase in the wholesale price of natural gas which was to be implemented on November 1st, 1975. In late October 1975 Inland applied to the British Columbia Energy Commission for permission to flow this wholesale price increase through to the consumers and at the same time applied for an interim rate increase to improve its earnings. Before these consumer rate increases could be approved, the Provincial Government imposed a price freeze on energy and announced that the 15¢ wholesale price increase would not be forthcoming. Following the recent Provincial election, the new Provincial Government released the price freeze on energy relating to regulated utilities, but continued the freeze on the wholesale price. The Company is pleased to announce that effective January 1st, 1976 the British Columbia Energy Commission has granted an interim rate increase to your Company of 7¢ per Mcf for all customer classifications. The Company is presently preparing for a full scale rate hearing at which time the interim rates must be fully justified along with any further increases in retail rates for which the Company may apply.

Resignation and New Appointment

In January, 1976 Mr. R.M. Hungerford tendered his resignation as Senior Vice-President of the Company and as a member of the Executive Committee. Subsequently, Mr. J. Norman Hyland was elected a member of the Executive Committee.

Retirement

Mr. A.F. Kent, Inland's Project Manager, retired from the Company on December 31, 1975. Rusty Kent joined Inland in 1962 and his experience and dedication over the past 14 years have contributed greatly to the success of the Company. His final contribution was the supervision of the construction of the East Kootenay Link, which fittingly was completed and came into operation shortly before his retirement.

For the Board of Directors

Chairman of the Board

President and Chief Operating Officer

Vancouver, B.C.
February 2, 1976